

April 30, 2019

The Honorable Eddie Jones, Budget Chairman  
The Honorable Van Turner, Commission Chairman  
Members of the Shelby County Board of Commissioners

Dear Commissioners:

I am pleased to present the Fiscal Year (FY) 2020 Proposed Budget for Shelby County Government (the “County”). This balanced budget contains no tax increase while providing additional resources for:

- Pre-kindergarten education
- Pay increase for our employees who ensure that our citizens receive excellent services on a daily basis
- Public safety and justice reform services
- Investment to help encourage, develop, and grow a start-up technology industry in Shelby County.

Total uses of funds equal sources of funds in the amount of \$1.3 billion and a limited \$1.25 million use of fund balance.

### **PROPERTY TAXES**

Property taxes are fundamental to the County budget because this funding source represents 62% of all operational revenue. Property taxes in FY 2019 are projected to come in \$6.8 million below the FY 2019 budget or 0.9% less than expected. Total property taxes in FY 2019 are projected to only grow by \$325,000 over FY 2018 levels due to the \$0.01 reduction in the tax rate and lower than expected growth in assessed values. Given the lower than expected budget performance in the current year, the Administration has worked closely with the Trustee and the Assessor to forecast property tax revenues for FY 2020. The budgeted revenue that all parties have agreed to is based on current year collection patterns, property values incorporated in the new certified roll, along with the impact of expiring PILOT projects. The resulting proposed budget of \$795 million (both current and delinquent) is 1.0% below the FY 2019 budgeted property taxes. The limited growth in property taxes limits the additional expenditures that can be approved which is reflected in the expenditures recommended in the attached budget.

**With this budget I am proposing no change in the current \$4.05 tax rate. A change in the tax rate of one penny impacts total property taxes by value of \$1,937,000.**

## DEBT

County debt continues to be managed at acceptable levels. The County issued \$256 million of debt in FY 2019 to pay off a \$120 million line of credit, refinance existing debt, and provide \$80 million to fund Capital Improvement Plan (CIP) expenditures. Total outstanding debt is projected to end FY 2019 at \$965 million which is a net increase of \$75 million. No new debt issues are budgeted to occur in FY 2020 but a new line of credit will be needed to fund existing and new CIP projects. Estimated draws on the new line of credit are expected to be \$115 million. A new debt issue is expected to occur in FY 2021 to pay off this line of credit and fund future CIP needs. Our current revenue sources for debt will be able to support these expected debt levels as long as we maintain adherence to our existing debt policy and limit our annual CIP budgets to \$75 million. With continued vigilance, we can prevent debt burden from growing which would limit our financial ability to respond to other pressing needs of the community. Steps that can ensure continued effective control of future debt levels include:

➤ Planning

School construction and renovations account for 80% of our outstanding debt. It is imperative that a five year CIP plan for Shelby County Schools (SCS) is evaluated annually for effective debt planning and facility utilization.

➤ Policy

Adherence to the debt ceiling as established in the current Debt Policy and limiting budgeted expenditures to a maximum annual amount of \$75 million should be the guiding principles for incurring debt and approving capital expenditures.

➤ Pay-As-You-Go

Creation of a dedicated funding source for smaller capital items is needed to avoid the use of expensive long term bond financing.

The major bond rating agencies have recognized our commitment to “live within our means” by awarding Shelby County the second highest ratings of AA+/AA+/AA1 over the past five years. Maintaining these ratings will ensure that we minimize the future cost of debt financing.

**Proposal: Maintain the current tax rate allocation to Debt Service of \$0.69 cents.**

## EDUCATION

Our public education system in Shelby County is now in its sixth year of operations with seven independent school districts. Shelby County Government has supported the schools throughout the structural transition with increased funding of over \$66 million since 2013 by means of property tax growth and dedication of 100% of the Wheel Tax to school operations. Funding on a per pupil basis has increased significantly as total attendance declined during this period. Due to the lower property tax collections experienced in FY 2019 and no growth expected in FY 2020, current allocated taxes will not be sufficient to fully fund the schools. To fund the approved school expenditures at current levels, the Education Fund will need a \$4 million transfer from the General Fund in FY 2020. Although the proposed budget provides no increase in the required Maintenance of Effort funding levels, the proposed budget allocates \$4 million to cure the deficit from FY 2019.

**Proposal: Maintain the current tax rate allocation to the Education Fund of \$1.94 cents.  
Support expenditures with a \$4 million transfer from the General Fund.**

## PRE-KINDERGARTEN

Providing sufficient funding to maintain and grow Pre-Kindergarten (Pre-K) classrooms in the community continues to be a major focus for the Administration. High quality Pre-K has an amazing return on investment for the entire community. That is why, in the FY 2020 budget, we are making one of the largest investments in Pre-K in county history. In addition, we have worked with the Shelby County Commission and the City of Memphis to develop a framework that preserves existing classrooms and sets the stage to add classrooms. Finally, this is the first time Shelby County will have a dedicated revenue source for Pre-K education. In the FY 2020 budget, we are proposing to invest \$6 million in Pre-K education. This is a \$2.5 million increase in the support that was provided in FY 2019. We are also proposing to support this expenditure with \$6 million of county sales tax collections. If this proposed \$6 million expenditure level and dedicated source of funding is approved, we have a chance to increase the likelihood of high school graduation and employability. We have a chance to ignite a boom in community benefit.

**Proposal: Increase Pre-K funding by \$2.5 million from \$3.5 million to \$6 million and support the funding by shifting \$6 million of Shelby County sales tax collections to a Special Revenue Fund dedicated to support Pre-K funding.**

## CAPITAL IMPROVEMENTS

A key focus in developing the five-year Capital Improvement Plan was the need to limit annual budgeted capital expenditures to \$75 million a year to remain in compliance with our debt policy and avoid the need for a tax increase to support higher debt levels. The five-year capital investment plans presented for FY 2020-FY 2024 illustrate the significant need for maintenance and renovations to aging county buildings and infrastructure. Investment in information technology is also recognized as a critical component of efficient and secure operations, with all projects reviewed and prioritized by the IT Steering Committee.

Shelby County Schools have not yet submitted their detailed capital requests. The amounts allocated to the schools in the proposed CIP budget is based on the \$75 million limit for total CIP less the County infrastructure needs. We encourage the Commission to evaluate the SCS FY 2020 request within the context of a multi-year plan to fully assess the future impact of any facility renovations, closures or new construction.

## GENERAL FUND INVESTMENTS

**Employees** - Equitable compensation and a great benefit package is essential to retaining and recruiting productive employees. A general salary increase has been included for all employees. This increase impacts the General Fund by \$2.5 million and all funds by \$3.4 million (including benefits). We are also pleased to announce there will be no increase in health insurance premiums for employees. Lastly, our required Pension and OPEB contributions are fully funded which will help ensure that these benefits will be there for both our retirees and current employees.

**Investment in local start-ups** – I am proposing a \$1.25 million investment in a start-up technology fund in partnership with Epicenter. I am bullish on Shelby County entrepreneurs and our partner in this endeavor is focused on supporting African American and women entrepreneurs. If approved, this is likely the largest investment from local government in tech start-ups in Shelby County history. It is important to note that the proposed budget allocates a limited use of General Fund Balance to support this investment. However, the County's investment will be fully insulated from risk of significant loss.

The County's investment in the start-up technology fund is guaranteed to be repaid from either investment returns or payment from an escrow fund established by a local philanthropic organization. This is a unique opportunity to help encourage, develop, and grow a start-up technology industry in Shelby County at no significant cost to the County in the long term.

**Investment in criminal justice reforms** – We are expanding the investment in the Shelby County Office of ReEntry and investing in additional positions in Juvenile Court and the Public Defender's office to help both reduce the number of people entering the criminal justice system and reduce the recidivism rate for those existing the justice system. Specifically, I am proposing we hire permanent county employees in several priority areas, including an attorney to assist with restoration of citizenship rights (e.g. expungement), a volunteer coordinator to assist members of the public who want to mentor and support justice-involved youth, and an expansion of our community-based approach to law enforcement. Ending the cycle of people in and out of the justice system helps make our community safer.

I want to sincerely thank the Elected Officials and Division Directors for their partnership and support in the development of the Fiscal Year 2020 Budget. The limited growth in revenue has required a very difficult prioritization of our expenditures. This budget effectively utilizes all available resources in delivering essential services to our taxpayers, while providing a long term vision that ensures future financial stability. We look forward to reviewing the proposed budget with the Board of County Commissioners with a shared sense of fiscal integrity and commitment to making Shelby County a great place to live, work, play, and invest for the future. I am certain that Shelby County Government remains in an excellent position to meet the challenges of the future.

All the best,

Lee Harris  
Mayor



## **Budget Development Guidelines**

Although each fiscal year presents different circumstances and challenges, adherence to several underlying financial policies has successfully guided the Administration and County Commission in budget development. This shared fiscal discipline has placed Shelby County Government in a strong financial position to deal with current and future economic challenges.

### ***What are the basic goals that guide the budget development process?***

- To maintain structural budget balance by limiting recurring expenditures to reasonable projections of recurring revenues
- To maintain an appropriate fund balance to ensure a continued strong financial position for optimal credit ratings, sufficient cash flow, and resources for emergencies
- To maintain a stable property tax rate to allow adaptability to cyclical economic conditions or fiscal circumstances
- To adhere to the Debt Policy by limiting Capital Improvement Plan to a maximum annual County expenditure of \$75 million
- To provide a compensation package of salary and benefits that will attract and retain a productive workforce
- To fully fund Pension and OPEB (other post-employment benefits) retirement plans
- To actively seek to reduce or minimize expenditures through efficiency, technology, innovation, or identification of alternate funding sources
- To treat all public dollars as sacred and carefully scrutinize all expenditures to ensure they are being spent on either key strategic initiatives or the required core services of public safety, education, and health

### ***What indicators measure our success in meeting those goals?***

- Agency bond ratings maintained at AA+/AA1 during that period
- General Obligation Debt maintained within our debt policy
- No property tax increase since 2014 with tax reductions in Fiscal Year 2018 and Fiscal Year 2019
- Average Annual Expenditure growth limited to about 1% per year since 2010, including compensation, benefits and operational cost increases
- General salary increases provided for the last five years
- No use of short term borrowing or fund balance for recurring expenditures
- Pension and OPEB obligations funded at 100% of annual required contribution (ARC)
- Capital expenditures maintained within levels required to be in compliance with the Debt Policy

**Revenue Overview – All Funds**

The Proposed Budget for Fiscal Year (FY) 2020 is based on a total revenue projection of \$1,283,197,718. This amount is \$17.2 million less than the FY 2019 amended budget for total revenue, primarily due to decreases in property tax revenue (\$7.9M), and Intergovernmental Revenues from the State (\$13.9M) offset by higher Fines, Fees, and Permits (\$1.6 million) and Investment Income (\$4.2 million). The property tax revenue is based on the proposed tax rate of \$4.05 with a penny value of \$1.9 million. The lower Intergovernmental Revenues from the State is due to lower grants and payments for Corrections. Both of these items were budgeted too high in FY 2019. Other sources of funds, such as planned use of fund balance, gain on sale of fixed assets and transfers from other funds, are not included in this revenue analysis.

Major revenue source categories are shown below with a comparison of the relative contribution of each category to the prior year amended budget:

<u>Revenue Category</u>	<u>FY20 Amount</u>	<u>FY20%</u>	<u>FY19%</u>
Property Taxes	\$ 795,192,705	62.0%	61.8%
Intergovernmental-State	177,781,277	13.9%	14.7%
Other Local Taxes	123,441,517	9.6%	9.5%
Fines, Fees & Permits	107,166,514	8.4%	8.1%
Intergovernmental-Federal	49,364,414	3.8%	3.9%
Charges for Services	18,461,433	1.4%	1.4%
Other Revenue/Interest	11,789,858	0.9%	0.6%
<b>Total Revenue</b>	<b>\$ 1,283,197,718</b>	<b>100.0%</b>	<b>100.0%</b>



*A more detailed analysis of revenue sources is provided in the “All Funds Summary” and the “General Fund Summary” sections of this document.*

# INTRODUCTION

# Budget Overview

Revenue is also recorded by fund type on the basis of property tax allocations or the specific nature of the revenue source, as follows:

<u>Revenue Fund Type</u>	<u>FY20 Amount</u>	<u>FY20%</u>	<u>FY19%</u>
General Fund	\$ 436,097,883	33.9%	33.4%
Education Fund	423,284,357	32.9%	32.9%
Grants Fund	142,688,299	11.1%	12.0%
Debt Service Fund	135,649,334	10.6%	10.7%
Enterprise Funds	79,380,571	6.2%	6.1%
Special Revenue Funds	57,346,528	4.5%	4.2%
Internal Service Funds	8,750,746	0.7%	0.7%
<b>Total Revenue</b>	<b>\$ 1,283,197,718</b>	<b>100.0%</b>	<b>100.0%</b>

Major funds are those that constitute more than 10% of total revenue. For Shelby County, the General Fund, Education Fund, Grants Fund, and Debt Service Fund qualify as major funds. Although our focus is often placed on the General Fund and its impact on our residents and businesses, it is important to recognize that significant services are also provided to the community through Grants, Special Revenue Funds such as Roads and Bridges or Mosquito Control, and Enterprise Funds such as Fire Services, Codes Enforcement, and Corrections.

## Property Tax Revenue



Property taxes are the primary source of operating revenue for Shelby County, providing 62% of total revenues. Assessed values of properties are determined by the Shelby County Assessor to serve as the basis for taxation. The property tax rate is set by the County Commission as a part of the annual budget review process at a level determined appropriate to maintain a balanced budget while providing necessary services to residents. The County has attempted to maintain stable property tax rates to avoid the need for increases to adapt to cyclical economic and fiscal conditions without the use of reserve funds for recurring expenditures.

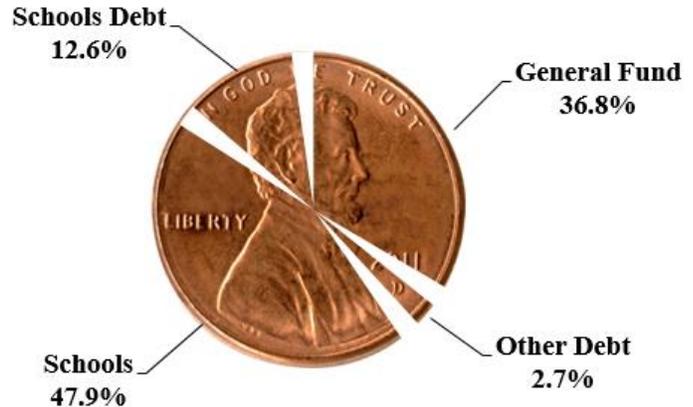
## Reallocations of the Tax Rate:

No reallocation of the tax rate is proposed in the FY 2020 budget. The revenues derived from property taxes are allocated as follows:

### Property Tax "Penny" Allocations

<u>Fund:</u>	<u>FY20 Proposed</u>			<u>FY19 Adopted</u>		
	<u>\$</u>	<u>Rate</u>	<u>%</u>	<u>\$</u>	<u>Rate</u>	<u>%</u>
Education	\$ 381.0	\$ 1.94	47.9%	\$ 384.7	\$ 1.94	47.9%
General Fund	292.6	1.49	36.8%	295.4	1.49	36.8%
Debt Service*	121.6	0.62	15.3%	122.9	0.62	15.3%
<b>Total</b>	<b>\$ 795.2</b>	<b>\$ 4.05</b>	<b>100.0%</b>	<b>\$ 803.1</b>	<b>\$ 4.05</b>	<b>100.0%</b>
<u>*Debt Service:</u>						
Schools	\$100.1	0.51	12.6%	\$101.1	0.51	12.6%
Other	21.5	0.11	2.7%	21.8	0.11	2.7%
<b>Total Debt</b>	<b>\$121.6</b>	<b>\$ 0.62</b>	<b>15.3%</b>	<b>\$122.9</b>	<b>\$ 0.62</b>	<b>15.3%</b>
<b>Total Schools</b>		<b>\$2.45</b>	<b>60.5%</b>		<b>\$2.45</b>	<b>60.5%</b>

*One penny on the property tax rate generates \$1,937,000 in FY 2020 revenue*



**Functional Expenditures – All Funds**

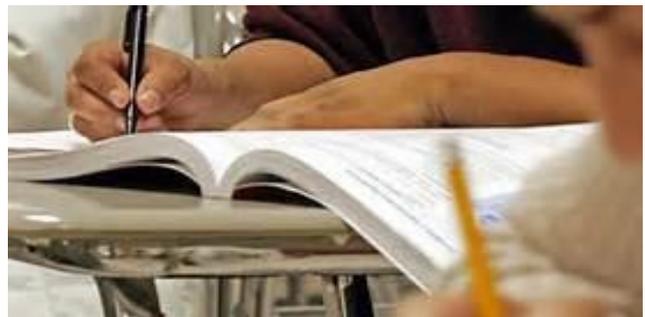
Fiscal Year 2020 countywide net expenditures by functional categories for all funding sources consist of the following:

<b><u>Functional Category</u></b>		<b><u>FY20</u></b>	<b><u>FY20 %</u></b>	<b><u>FY19 %</u></b>
Education	\$	433,259,000	33.8%	32.9%
Criminal Justice		347,683,348	27.1%	27.4%
Debt Service		135,649,334	10.6%	10.7%
General Government		112,936,478	8.8%	7.3%
Public Works		84,962,040	6.6%	6.8%
Health		87,667,794	6.8%	6.5%
Planning & Development		44,955,816	3.5%	3.7%
Community Services		36,083,909	2.8%	4.7%
<b>Total</b>		<b>\$ 1,283,197,718</b>	<b>100.0%</b>	<b>100.0%</b>

***Including debt service for schools, Education represents 45.8% of total expenditures from all funding sources.***

**Education**

Education is our highest priority and largest single investment. Shelby County Government has remained committed to fully supporting the success of all public school students throughout a period of significant organizational change. The County now includes seven separate school districts that share funding on the basis of attendance, with the Shelby County School (SCS) district receiving about 77% of total funds.



State law requires that the County provide at least the same level of funding as the prior year on a total funding or per pupil basis, known as “Maintenance of Effort” (MOE). The funding approved for FY 2019 set the MOE level for the subsequent year. The proposed

budget of \$427.3 million is equal to the FY 2019 budget. Due to lower than budgeted property tax revenues, a transfer from the general fund of \$4 million is proposed in the FY 2020 budget to fund the budgeted expenditures to the school systems. Proposed funding includes the following resources:

- Education will receive 48% of all property taxes in FY 2020 excluding school debt and 60% including school debt
- 100% of the Wheel Tax (\$34.9 million) has been allocated to the Education Fund for school operations since FY 2017. A large portion of this tax was previously allocated to repayment of school debt.
- \$38.4 million has been allocated for school capital improvements for renovations and new construction.

### **Pre-K Fund**

Historically all Pre-Kindergarten (Pre-K) support has been included in the General Fund. Starting in FY 2020, a new special revenue fund for Pre-K will be established with a designated revenue source of general sales taxes. Providing sufficient funding to maintain and grow Pre-K classrooms in the community continues to be a major focus for the Administration. High quality Pre-K has an amazing return on investment for the entire community. That is why the FY 2020 Budget makes one of the largest investments in Pre-K in county history. In addition, we have worked with the Shelby County Commission and the City of Memphis to develop a framework that preserves existing classrooms and sets the stage to add classrooms. Finally, this is the first time Shelby County will have a dedicated revenue source for Pre-K education. In this budget, we are proposing to invest \$6 million in Pre-K education. This is a \$2.5 million increase in the support that was provided in the prior fiscal year. We are also proposing to support this expenditure with \$6 million of County sales tax collections that will be shifted from the Roads and Bridges Fund. The Roads and Bridges fund is expected to end FY 2019 with a \$20 million surplus in Fund Balance which is \$9 million above the Fund Balance that existed at the end of FY 2017. With the higher gasoline taxes and the current strong Fund Balance, it was determined that only \$500,000 of sales taxes were needed to remain in Roads and Bridges to be used primarily to match Federal and State grants. If this proposed \$6 million expenditure level and dedicated source of funding is approved, we have a chance to increase the likelihood of high school graduation and employability.

### **General Fund Summary**

The General Fund accounts for all functions of County Government that are not specifically funded by other sources. Total appropriations in the General Fund for FY 2020 are budgeted at \$414.6 million – a decrease of \$11.9 million or -2.8% over prior year budget. Listed below are the primary adjustments to the FY 2020 General Fund budget:

- **Transfer of all Pre-K Expenses to New Fund** – Historically all Pre-K funding has occurred in the General Fund. The FY 2019 budget included \$3.5 million of Pre-K funding. As outlined above a new Pre-K Special Revenue Fund is being established and the \$3.5 million historically provided by the General Fund will be moved to this new Pre-K fund.
- **Transfer of Sales Taxes to General Fund** – As described above, the Roads and Bridges Fund had sufficient Fund Balance and the need for only \$500,000 in general sales tax. The total budgeted sales tax is \$8.3 million. With \$6 million needed by Pre-K and \$0.5 million needed by Roads and Bridges, the remaining \$1.8 million was transferred to the General Fund which helps offset the decline in property taxes.
- **Employee Compensation/Benefits**: A general salary increase for all employees at a cost of \$2.5 million with benefits has been included in the adopted budget. The increase will be on a sliding scale with lowest paid employees receiving the highest raise. Those employees earning \$50,000 or less will receive 1.5%, employees earning more than \$50,000 up to \$100,000 receiving 1% and those earning over \$100,000 receiving 0.5%. In addition, there will be no increase in health insurance premiums for

employees. The County will also continue to fully fund its pension and OPEB obligations at 100% of the annual required contribution based on actuarial data.

- **Election Cycles** – Both the City of Memphis and presidential primary elections will occur next year and these are fully reimbursable to the County. Included in the FY 2020 budget is \$3.6 million of additional revenue and \$1.3 million of additional expense related to these elections.
- **Education Fund Support** – Due to the lower than planned growth in Property Taxes in FY 2019, the approved budget for the Education Fund will not be fully supported by revenues allocated to this fund. To pay the approved FY 2019 budgeted expenditures and to match those expenditures in FY 2020 to meet the maintenance of effort requirement, \$4.0 million of unbudgeted General Fund transfers will be required in both FY 2019 and FY 2020. We have included the required \$4 million transfer in the General Fund budget for FY 2020.
- **Investment in Local Start-ups** – A \$1,250,000 investment in Epicenter is proposed to support the development and growth of tech start-ups in the community with a focus on supporting African American and women entrepreneurs. This investment has a very unique structure which will ensure we will recoup this investment either from returns from the companies Epicenter invests in or an escrow fund that will be established by a local philanthropist. This is a unique opportunity to help develop and grow our local entrepreneurs at no cost to the County in the long term.
- **Investment in Criminal Justice Reforms** - We are expanding the investment in the Shelby County Office of ReEntry and investing in additional positions in Juvenile Court and the Public Defender's office. The goal is to both help reduce the number of people entering the criminal justice system and reduce the recidivism rate for those exiting the justice system. Ending the cycle of people in and out of the justice system helps make our community safer. The total investment for these initiatives is \$465,200.

Of the portion of the property tax rate allocated to the General Fund (36.8%), about 75% is used for Criminal Justice/Judicial Services, 13% for Health Services, and only 12% for all other functions - including Public Works, Community Services and administrative services.

General Fund dollars for net expenditures are distributed on a functional basis as shown below:



**Criminal Justice and Judicial operations account for 75% of General Fund Property Taxes.**

**Compensation & Benefits**



***Fringe Benefits now account for just under 40% of all personnel costs***

***\* Excludes Social Security benefits of \$462,500 that are paid only for temporary employees***

Personnel costs account for 74% of total General Fund expenditures. That factor makes employees the County’s primary asset and most important investment in delivering high quality services to its residents. It is important that we protect that investment by offering equitable compensation and benefits to recruit and retain a highly qualified and professional staff.

The average cost of benefits at FY 2020 rates is just under 40% of salaries for permanent full-time employees, as shown below. This cost is below last year due to an actuarial decrease for pensions and OPEB contribution. The Annual Required Contributions for pensions and OPEB continue to be fully funded for this fiscal year.

<b>Benefit Type</b>	<b>FY20 Budget</b>	<b>% of Salaries</b>
Pension	\$ 48,146,019	21.83%
Health Insurance	27,358,787	12.40%
Other Post Employment Benefits	5,160,865	2.34%
Medicare	3,306,148	1.45%
Group Life Insurance	1,852,618	0.84%
OJI Expense	912,041	0.40%
Long Term Disability	838,089	0.38%
Unemployment Compensation	228,010	0.10%
<b>Total Benefits*</b>	<b>\$ 87,802,577</b>	<b>39.74%</b>

As we continue to explore innovative methods to contain these costs in the future, we are investing today in our current workforce through training programs and wellness initiatives.

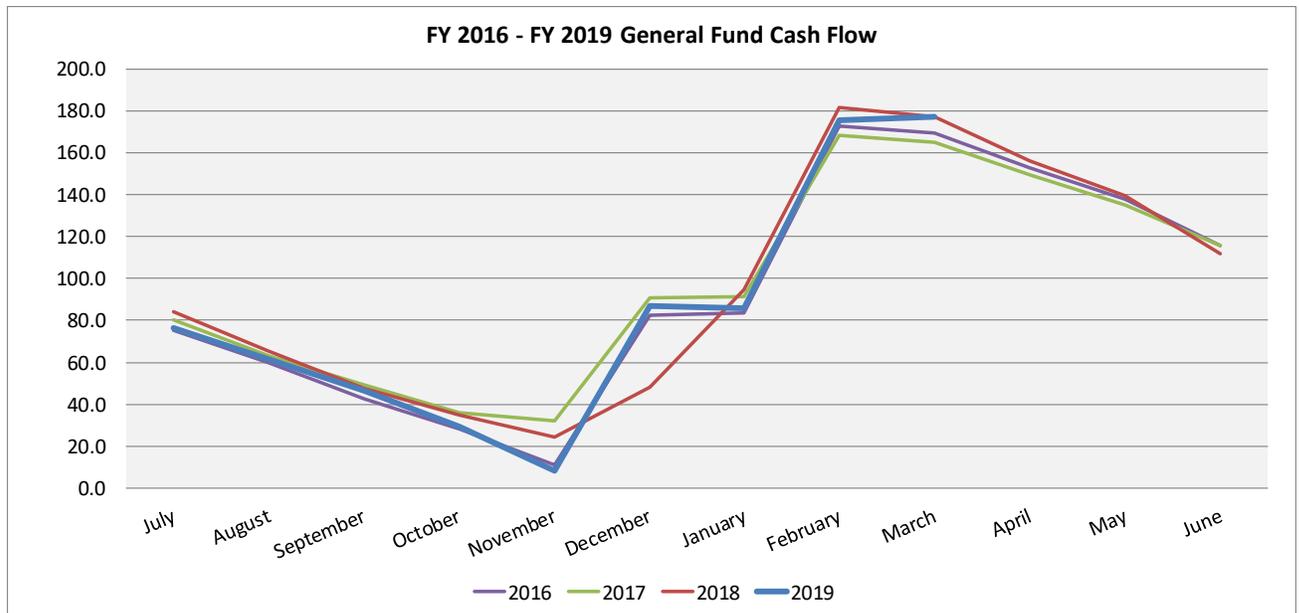
**General Fund Balance**

Maintaining an appropriate General Fund Balance is an essential element of a strong financial plan. Fund Balance is important for several reasons:

- To provide funds for contingencies/emergencies
- To absorb the impact of federal/state funding reductions
- To demonstrate financial stability for higher bond ratings and lower debt cost
- To provide sufficient cash flow during the property tax collection cycle

Shelby County Fund Balance policy requires that the General Fund balance is maintained at 20% to 30% of annual revenue, with 25% preferred. The policy also stipulates that action must be taken to increase or reduce the fund balance as necessary to maintain the recommended level.

As the following chart illustrates, our annual tax collection cycle creates the need for large cash reserves during several months of the fiscal year. A fund balance within our policy levels is advised to allow for negative cash flow until December when most residential property taxes are collected.



In addition to the General Fund balance, the County maintains reserves within other funds that are dedicated for the specific uses or operating stabilization of those funds listed in the All Funds section of this book.

**Capital Improvement Plan**

The Capital Improvement Plan presents the County’s funding level commitment over the next five years. However, only the first year of the CIP plan is actually budgeted. For FY 2020, the total CIP budget is \$84.9 million of which \$75 million is funded by the County. Projects funded with County resources include \$36.6 million for county infrastructure needs and \$38.4 million allocated for Shelby County Schools.

The County’s long-term goal is to limit allocations to approximately \$75 million per year on the County’s share of the CIP budget. Budgets in both FY 2018 of \$120 million and FY 2019 of \$171 million exceeded the cap which has led to additional debt levels. Holding to the \$75 million cap is a necessity to avoid an increase in the tax rate. Due to aging county and school facilities and the need for continued investment in technology, staying within the limits of the policy may present future challenges.



Shown below are the totals for each CIP project category budgeted for FY 2020, with significant projects noted within each group. This prioritized list of projects are those considered to be most critical to the long term needs of the community.

**Schools - \$38.4 million (45% of total CIP)**

Detailed listings from the school have not been submitted. We fully expect that difficult choices will need to be made to hold all the school systems within this proposed level.

**Buildings & Property - \$11.0 million (13% of total CIP)**

\$3.0M – Renovation of East Data Center

\$4.5M – Year 1 construction costs on Youth Justice and Education Center. Project is expected to be completed in FY 2022 at a total cost of \$25 million.

\$1.3M – Criminal Justice Center roof replacement

**Community Projects - \$14.0 million (16% of total CIP)**

\$8.5M – Big Creek Resiliency (expanded floodway)

\$3.0M – FedEx Forum maintenance. Plan is to obtain State approval to pay these costs out of hotel/motel fund in future years.

\$0.8M – Renovation of East Shelby Library

\$0.7M – Additional SkyCop cameras

**Information Technology - \$20.1 million (24% of total CIP)**

\$7.0M – Regional One Electronic Health Records (HER) System

\$9.2M – Land/Mobile radio project (will be fully completed in FY 2021)

\$1.3M – Year 1 of costs for a new Trustee billing system

\$1.0M – Year 1 of costs a new General Sessions Civil Case Management System

**Roads & Bridges - \$1.4 million (2% of total CIP)**

Initial costs for roadway widening and enhancements projects for Holmes and Hacks Cross Roads

***Detailed project descriptions are provided in the CIP section of this document.***

**Long Term Debt**

County debt continues to be managed at acceptable levels. The County issued \$256 million of debt in FY 2019 to pay off a \$120 million line of credit, refinance existing debt, and provide \$80 million to fund CIP expenditures. Total outstanding debt is projected to end FY 2019 at \$965 million which is a net increase of \$75 million. No new debt issues are budgeted to occur in FY 2020 but a new line of credit will be needed to fund existing and new CIP projects. Estimated draws on the new line of credit are expected to be \$115 million. A new debt issue is expected to occur in FY 2021 to pay off this line of credit and fund future CIP needs. Our current revenue sources for debt will be able to support these expected debt levels as long as we maintain adherence to our existing debt policy and limit our annual CIP budgets to \$75 million. With continued vigilance, we can prevent debt burden from growing which would limit our financial ability to respond to other pressing needs of the community

## Challenges Ahead

Planning for the future is a critical element to the current year budget process. A five-year financial projection is included in the General Fund Summary that illustrates the need to continue our efforts to contain costs and maximize revenue sources. There are a number of significant issues that could impact our budget in the next several years:

- **Funding for Education** presents a continuing challenge for both the operating and capital budgets. The schools face several issues including an immediate need to fund their annual requirements for OPEB, declining enrollments with underutilized schools, and insufficient State BEP funding. It will become necessary to find a sustainable balance between meeting the educational needs of the community while staying within a realistic level of available resources.
- **Reductions to State or Federal grant funding** may have a significant impact on the amount of funds available to the County in the future. Grant funds provide financial leverage to the County in providing important services to our community, especially for public health and community service programs. Some programs will need to be evaluated to determine whether county funding should be used to continue essential services if the grant funding is discontinued.
- **Aging Infrastructure** of county roads and buildings has created additional maintenance needs that must be funded from the annual operating budget. While major structural renovations may qualify for CIP funding, the ongoing cost of repairs for roofing, paint, concrete and asphalt, carpets, HVAC and plumbing generally do not qualify. Major building renovations or replacements, including the Regional One Medical Center and schools, could require an increased level of CIP investment and long term debt service cost.
- **Maintaining affordable debt levels** will require long term planning, project prioritization, allocation of funds for Pay-As-You-Go financing and adherence to debt policy limitations on capital spending. Capital planning for Shelby County Schools is critical for effective debt planning. Proposed CIP expenditures need to be evaluated realistically to ensure that future funding levels can be sustained.
- **Providing equitable compensation** and benefits for employees in an increasingly competitive employment market is an important element in maintaining our ability to recruit and retain a highly productive staff. Higher minimum wages and market adjustments for some job classifications could require additional funding for implementation.
- **Health care** will continue to play a major role in the cost of current and post-employment personnel expenditures. The levels of benefits that can be realistically and responsibly provided to employees on a long term basis require ongoing evaluation and possibly some plan modifications or cost sharing proposals. Changes to the Affordable Care Act could have an impact on Regional One Health services and County healthcare plans.
- **De-annexation** from the City of Memphis will begin to have impacts on the County in FY 2021. Assuming responsibility for public safety and basic services in the areas being de-annexed will require additional resources in the future.
- **State Reimbursement for Corrections** has not kept pace with the increasing operating costs for this facility. The County has continued to increase the supplemental funding, but service reductions may become necessary at some point.
- **Video Technology in Law Enforcement** has created the need for additional manpower for viewing, classifying, storing, and retrieving the information generated from vehicle and body worn cameras. Storage of the video for indefinite periods is also a significant cost factor.

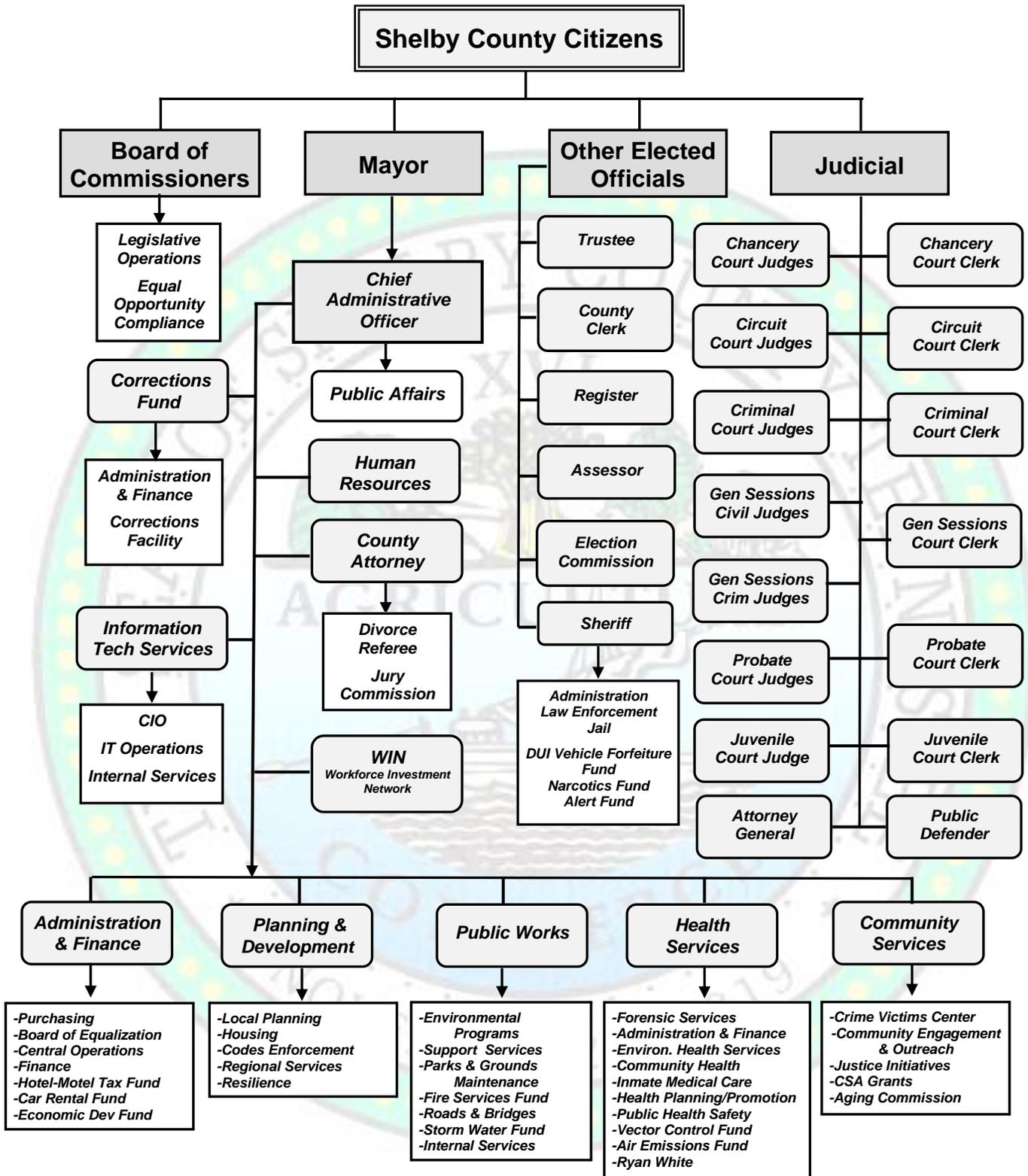
## **Current Status and Outlook**

While these challenges are daunting, there are also opportunities ahead. Enhanced workforce development activities along with collaborative economic development efforts by the Administration, Commission, and EDGE (Economic Development Growth Engine) can help bring new employers to Shelby County or help grow existing businesses in the community. Commercial indicators show increased activity in building permits, vacancy rates, leasing activity, and construction. Local real estate conditions continue to compare favorably to many areas of the country, with residential sales improving based on the increased number of home sale transactions, stabilization of sale prices and reduced foreclosures and mortgage delinquencies. Employment is at record low levels in the County.

Five year projections are developed annually in conjunction with budget preparation and updated throughout the year for short term planning purposes. Projections for the General Fund with discussion of the underlying assumptions are included in the “General Fund Summary” section of this document. Projections for other funds are also considered in budget development to ensure that dedicated revenues and fund balances will continue to be sufficient to maintain operations.

Proactive financial management strategies that focus on operating efficiencies and effective debt management have been instrumental in maintaining the stability of Shelby County’s financial status. Continuing efforts to promote revenue diversification and economic development and to address the fragmentation of services created by multiple elected officials will be instrumental in meeting the challenges of future growth. Bond rating agencies have noted a diversified and expanding economic base, strong financial performance and general fund position as the basis for the County’s AA+/AA1 bond ratings.





## **MISSION:**

Shelby County Government strives to improve community health, support education including pre-kindergarten services, promote workforce development, enhance public safety and support criminal justice system reforms. This mission is achieved through a dedicated workforce in an open, efficient and ethical government that is fiscally responsible and responsive to Shelby County's diverse needs.

## **STRATEGIC PLAN:**

Strategic planning promotes the County's commitment to high performance by providing a focus for the efficient use of resources and services. The Administration has identified strategic goals and objectives as a roadmap to fulfilling the stated mission of Shelby County and to provide an objective foundation for decision-making and measurement of results. These planning initiatives are intended to assign appropriate levels of County resources toward achievement of the identified priorities with both a long and short term perspective.

These Strategic Goals are linked throughout the budget document to the divisions and departments that execute the strategies. Icons to represent each strategy are also used as a visual reference.



### ***Strategy 1: Support Quality Public Education***

- a) Provide sufficient operating and capital funding for all public schools in the County in a manner that is fiscally responsible.
- b) Enhance programs available in the community that provide pre-kindergarten (Pre-K) services to ensure that children (0-5 years of age) receive care and training that prepares them to enter school ready to learn.



### ***Strategy 2: Enhance Public Safety and Support Criminal Justice Reform***

- a) Support effective jail diversion programs for adult non-violent offenders with substance abuse or mental health issues to reduce detention costs and promote rehabilitation.
- b) Reduce the jail population by reforming the bail system to reduce or eliminate bail for individuals who don't pose a public safety risk and can be expected to show up for trial.
- c) Provide programs that promote adult re-entry strategies to reduce recidivism after arrest or incarceration.
- d) Reduce the number of youth that interact with the criminal justice system by implementing new diversion programs that focus on providing assistance and help to youth involved in minor crimes.
- e) Reduce the recidivism rate of kids who are detained and in county custody.
- f) Administer equitable civil and criminal justice court systems.
- g) Provide programs that advocate for victims of crime and prevent abuse in vulnerable populations.
- h) Provide effective law enforcement and improve the detention facilities for youths and adults.
- i) Provide effective disaster preparedness and 911 emergency response systems.
- j) Ensure public safety through enforcement of fire, environmental, construction and zoning codes and regulations.

***Strategy 3: Protect and Promote Community Health***

- a) Provide and support integrated healthcare services that focus on wellness, early intervention, and prevention.
- b) Provide programs that reduce the risk of chronic and infectious diseases with containment and treatment options.
- c) Coordinate agencies designed to strengthen the health and welfare of children, seniors and families.
- d) Provide a safety net of healthcare services for the disadvantaged.

***Strategy 4: Promote Workforce Development and a Healthy Economy***

- a) Provide programs that help individuals develop the skills that are currently being demanded by employers in the County.
- b) Prioritize the work of WIN and the American Job Center to provide assistance to our citizens who are seeking employment and assistance to our local companies trying to fill open positions.
- c) Coordinate agency programs that address issues of poverty and economic/housing insecurity within the county.
- d) Promote the growth of local, minority, and women owned businesses in the community.
- e) Provide a business-friendly environment in county operations and regulations to encourage local development and diversity.
- f) Create new strategies that encourage small business development particularly in the area of start-up technology.

***Strategy 5: Provide Effective Governance and Sound Stewardship for County Resources***

- a) Ensure financial stability through sound oversight of fiscal operations, taxation, debt management, and revenue collections. Maintain all records of public transactions as required by the State.
- b) Preserve and maintain county infrastructure of roads, bridges, buildings, and technical systems for current and future operations.
- c) Maximize efficiency and minimize cost of operations through centralization, utilization of technology, outsourcing, or other methods.
- d) Build trust and confidence in government through transparent, accessible, and responsive interactions with all internal and external customers.
- e) Enhance the capabilities and foster the professionalism of the employee workforce through equitable compensation, training programs, and succession planning.
- f) Actively seek alternative funding sources through fees, grants, or community partners to provide county services.